

The Federal Sector of the National Income and Product Accounts

The federal budget is not the only mechanism available for gauging the effect on the economy of the federal government's revenues and spending. That effect is also measured in the official national income and product accounts (NIPAs) produced by the Department of Commerce's Bureau of Economic Analysis (BEA). The NIPAs provide a picture of government activity in terms of production, distribution, and use of output. They recast the government's transactions into categories that affect gross domestic product (GDP), income, and other macroeconomic totals, thereby helping to trace the relationship between the federal sector and other areas of the economy.

Relationship Between the Budget and the NIPAs

A number of major differences distinguish how federal receipts and expenditures are treated in the NIPAs from how they are accounted for in the total (or unified) budget. For example, the NIPAs shift certain items from the spending to the receipts side of the ledger to reflect intrabudgetary or voluntary payments that the budget records as negative outlays. Such shifts are referred to as *netting and grossing* adjustments and do not affect the surplus or deficit (see Table D-1).

In contrast, other differences between the two accounting methodologies do affect the surplus or

deficit that each reports. The NIPAs' totals (but not the budget's) exclude government transactions that transfer existing assets and liabilities and that therefore do not add to or subtract from current income and production. Prominent among such *lending and financial* adjustments, as they are termed in Table D-1, are those for deposit insurance outlays, cash flows from direct loans made by the government before credit reform, and sales of government assets. Other factors that separate the NIPAs' accounting from that of the budget include *geographic adjustments* (the NIPAs exclude Puerto Rico, the Virgin Islands, and a few other areas) and *timing adjustments* (the NIPAs correct for such things as irregular numbers of benefit checks in a year or shifts in the timing of corporate tax payments).

In the national economic accounts, *contributions for government employee retirement* are considered the personal income of federal workers covered by the retirement funds. Therefore, in the NIPAs, outlays from the funds are treated as transactions outside the government sector of the economy. In the budget, those contributions are classified as government receipts.

Intragovernmental transfers are an adjustment made to the NIPA totals to account for payments that the government makes to federal entities whose activities are not counted as part of the budget. Nearly all such transfers involve the financing of credit programs.

The government's *capital transfers*—which include grants to state and local governments for high-

Table D-1.
Relationship of the Budget to the Federal Sector of the National Income
and Product Accounts (In billions of dollars)

	Actual 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Receipts												
Revenues (Budget) ^a	1,991	1,983	2,070	2,206	2,342	2,447	2,568	2,706	2,856	3,008	3,277	3,549
Differences												
Netting and grossing												
Medicare premiums	24	26	28	31	34	37	41	45	49	53	57	62
Deposit insurance premiums	*	*	*	1	1	1	1	1	2	2	2	2
Government contributions for employee OASDI and HI	11	12	13	13	14	15	16	17	18	19	21	22
Other	10	6	5	3	2	1	*	*	-2	-3	-5	-6
Geographic adjustments	-4	-4	-4	-4	-4	-4	-5	-5	-5	-5	-6	-6
Contributions for employee retirement	-5	-4	-4	-4	-4	-4	-4	-4	-4	-4	-4	-3
Estate and gift taxes	-28	-26	-24	-25	-22	-25	-22	-23	-25	-16	-15	-44
Universal Service Fund receipts	-5	-5	-5	-6	-6	-6	-6	-6	-6	-6	-6	-7
Timing shift of corporate estimated tax payments	23	-23	0	7	-7	0	0	0	0	0	0	0
Other	<u>24</u>	<u>-4</u>	<u>2</u>	<u>5</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>2</u>	<u>3</u>	<u>2</u>
Total Difference	50	-23	10	20	12	17	24	27	30	42	47	21
Receipts (NIPAs)	2,041	1,960	2,081	2,226	2,353	2,464	2,593	2,734	2,886	3,050	3,324	3,570
Expenditures												
Outlays (Budget) ^a	1,864	2,003	2,085	2,152	2,238	2,319	2,402	2,504	2,606	2,714	2,838	2,908
Differences												
Netting and grossing												
Medicare premiums	24	26	28	31	34	37	41	45	49	53	57	62
Deposit insurance premiums	*	*	*	1	1	1	1	1	2	2	2	2
Government contributions for employee OASDI and HI	11	12	13	13	14	15	16	17	18	19	21	22
Other	10	6	5	3	2	1	*	*	-2	-3	-5	-6
Lending and financial adjustments	14	8	11	20	21	11	10	10	9	9	9	9
Geographic adjustments	-11	-12	-12	-13	-13	-14	-14	-15	-16	-16	-17	-18
Timing adjustments	7	3	0	0	-12	3	9	0	0	0	-15	15
Contributions for employee retirement	34	39	38	40	41	42	43	45	47	48	50	51
Intragovernmental transfers	-1	-6	-7	-7	-9	-9	-9	-10	-10	-10	-10	-10
Capital transfers	-40	-44	-47	-48	-49	-50	-51	-52	-53	-54	-55	-56
Treatment of investment and depreciation	-8	-9	-13	-17	-20	-24	-28	-32	-36	-41	-45	-48
Universal Service Fund payments	-5	-5	-5	-5	-5	-5	-6	-6	-6	-6	-6	-6
Other	<u>-8</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>	<u>-5</u>
Total Difference	27	12	6	13	-1	3	7	-2	-3	-4	-20	10
Expenditures (NIPAs)	1,891	2,016	2,090	2,165	2,238	2,322	2,409	2,502	2,603	2,710	2,819	2,918

(Continued)

Table D-1.
Continued

	Actual 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Surplus												
Surplus (Budget) ^a	127	-21	-14	54	103	128	166	202	250	294	439	641
Differences												
Lending and financial transactions	-14	-8	-11	-20	-21	-11	-10	-10	-9	-9	-9	-9
Geographic adjustments	7	8	8	9	9	9	10	10	11	11	12	12
Timing adjustments	16	-26	0	7	5	-3	-9	0	0	0	15	-15
Contributions for employee retirement	-38	-43	-43	-44	-45	-47	-47	-49	-50	-52	-53	-55
Intragovernmental transfers	1	6	7	7	9	9	9	10	10	10	10	10
Capital transfers	40	44	47	48	49	50	51	52	53	54	55	56
Treatment of investment and depreciation	8	9	13	17	20	24	28	32	36	41	45	48
Universal Service Fund payments	*	*	*	*	*	*	*	*	*	*	*	*
Estate and gift taxes	-28	-26	-24	-25	-22	-25	-22	-23	-25	-16	-15	-44
Other	<u>33</u>	<u>*</u>	<u>7</u>	<u>10</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>8</u>	<u>7</u>	<u>8</u>	<u>7</u>
Total Difference	23	-35	5	7	12	14	17	29	33	46	67	11
Surplus (NIPAs)	150	-56	-9	61	115	142	183	232	283	340	506	652

SOURCE: Congressional Budget Office.

NOTES: * = between -\$500 million and \$500 million.

OASDI = Old-Age, Survivors, and Disability Insurance; HI = Hospital Insurance.

a. Includes Social Security and the Postal Service.

ways, transit, air transportation, and water treatment plants—are transactions in which one party provides something (usually cash) to another without receiving anything in return. Those transactions are linked to, or are conditional on, acquiring or disposing of an asset. Because such transactions shift existing assets from one party to another, they do not affect disposable income or production in the current period. Therefore, they are not counted in the NIPAs.

The NIPAs and the budget also differ in their *treatment of investment and depreciation*. The budget reflects all expenditures that the federal government makes, including its investment purchases of items such as buildings and aircraft carriers. The NIPAs show the current, or operating, account for the

federal government; thus, they exclude government investment and include the government's consumption of fixed capital, or depreciation. (Government investment, although included in the NIPAs' calculation of GDP, is not part of its measure of federal expenditures.)

The *Universal Service Fund*, which is administered by a nonprofit entity, receives funds from providers of telecommunications service and disburses those funds to providers that serve high-cost areas, low-income households, libraries, and schools, as well as to rural health care providers. As a result, the fund's receipts and payments are classified in the NIPAs as intracorporate transfers and do not show up in the national economic statistics.

The Government's Receipts and Expenditures as Measured by the NIPAs

The federal sector of the NIPAs generally classifies receipts according to their source (see Table D-2). Taxes and fees paid by individuals are the leading source of the government's receipts in the 2002-2012 period. The next category in terms of size is contributions (including premiums) for social insurance programs such as Social Security, Medicare, unemployment insurance, and federal employees' retirement. The remaining categories of receipts are accruals of taxes on corporate profits, including the earnings of the Federal Reserve System, and indirect business tax and nontax accruals. (Examples of indirect business taxes are customs duties and excise taxes. Nontax accruals include deposit insurance premiums.)

The government's expenditures are classified according to their purpose and destination. Defense and nondefense consumption of goods and services represents purchases made by the government for immediate use. The largest share of current defense and nondefense consumption is the compensation of federal employees. The consumption of fixed capital is the use that the government receives from its fixed assets, such as buildings or equipment; as noted earlier, that consumption appears in the accounts as depreciation.

Transfer payments are cash payments made directly to individuals, private entities, or foreign nations. Grants-in-aid are payments that the federal government makes to state or local governments, which generally use them for transfers (such as paying Medicaid benefits) or consumption (such as hiring additional police officers).

Although both the total budget and the NIPAs contain a category labeled "net interest," the NIPAs' figure is larger. Various differences cause the two measures to diverge. The biggest difference is the contrasting treatment of the interest received by the Civil Service and Military Retirement Trust Funds. In the total budget, such receipts offset the payments made to those funds by the Treasury. In the NIPAs, however, those receipts are reclassified as contributions to personal income and do not appear on the ledger detailing the government's transactions.

The category in the NIPAs labeled "subsidies less current surplus of government enterprises" contains two components, as its name suggests. The first—subsidies—is defined as grants paid by the federal government to businesses, including state and local government enterprises. Subsidies are dominated by housing assistance.

The second part of the category is the current surplus of government enterprises, which are certain business-type operations of the government, such as the Postal Service. The operating costs of a government enterprise are mostly covered by the sale of goods and services to the public rather than by tax receipts. The difference between sales and current operating expenses is the enterprise's surplus or deficit. (*Government enterprises* should not be confused with *government-sponsored enterprises*, or GSEs, which are private entities established and chartered by the federal government to perform specific financial functions, usually under the supervision of a government agency. Examples of GSEs include Fannie Mae and the Farm Credit System. As privately owned, though publicly chartered, corporations, GSEs are not included in the budget or in the federal sector of the NIPAs.)

Table D-2.
Projections of Baseline Receipts and Expenditures as Measured by the National Income
and Product Accounts (In billions of dollars)

	Actual 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Receipts												
Personal Tax and Nontax Receipts	1,012	942	992	1,052	1,106	1,155	1,220	1,296	1,377	1,466	1,661	1,826
Contributions for Social Insurance	717	744	785	830	876	918	961	1,006	1,058	1,114	1,172	1,231
Corporate Profits Tax Accruals	200	169	197	234	257	275	291	307	323	338	355	373
Indirect Business Tax and Nontax Accruals	<u>112</u>	<u>105</u>	<u>107</u>	<u>110</u>	<u>114</u>	<u>117</u>	<u>121</u>	<u>125</u>	<u>128</u>	<u>132</u>	<u>136</u>	<u>140</u>
Total	2,041	1,960	2,081	2,226	2,353	2,464	2,593	2,734	2,886	3,050	3,324	3,570
Expenditures												
Purchases of Goods and Services												
Defense												
Consumption	273	311	313	319	328	336	345	354	363	373	383	393
Consumption of fixed capital	64	64	65	65	66	67	67	68	68	69	70	70
Nondefense												
Consumption	141	160	170	173	176	179	182	185	189	192	196	200
Consumption of fixed capital	<u>29</u>	<u>30</u>	<u>30</u>	<u>31</u>	<u>32</u>	<u>33</u>	<u>34</u>	<u>35</u>	<u>36</u>	<u>37</u>	<u>38</u>	<u>40</u>
Subtotal	506	565	577	589	602	614	627	641	656	671	687	704
Transfer Payments												
Domestic	808	880	922	956	998	1,056	1,115	1,179	1,250	1,328	1,409	1,486
Foreign	<u>12</u>	<u>13</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>11</u>	<u>10</u>	<u>10</u>
Subtotal	819	893	934	967	1,009	1,067	1,126	1,190	1,262	1,339	1,419	1,496
Grants-in-Aid to State and Local Governments	265	298	321	338	355	373	394	415	439	465	494	525
Net Interest ^a	247	215	218	233	233	229	222	214	204	191	174	148
Subsidies Less Current Surplus of Government Enterprises	<u>53</u>	<u>45</u>	<u>41</u>	<u>39</u>	<u>39</u>	<u>40</u>	<u>40</u>	<u>41</u>	<u>42</u>	<u>43</u>	<u>44</u>	<u>45</u>
Total	1,891	2,016	2,090	2,165	2,238	2,322	2,409	2,502	2,603	2,710	2,819	2,918
Surplus												
Surplus ^a	150	-56	-9	61	115	142	183	232	283	340	506	652

SOURCE: Congressional Budget Office.

a. Includes Social Security and the Postal Service.